

REPORT OF THE AUDIT OF THE
JOHNSON COUNTY FISCAL COURT

For The Fiscal Year Ended

June 30, 2005



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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(606) 789-3588

LETTER OF TRANSMITTAL

**AUDIT EXAMINATION OF THE
JOHNSON COUNTY FISCAL COURT**

June 30, 2005

Wells & Company, PSC has completed the audit of the Johnson County Fiscal Court for fiscal year ended June 30, 2005.

We have issued an unqualified opinion, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Johnson County, Kentucky.

Financial Condition:

The Fiscal Court had net assets of \$8,876,322 as of June 30, 2005. The Fiscal Court had unrestricted net assets of \$3,512,517 in its governmental activities as of June 30, 2005, with total net assets of \$8,876,322. The Fiscal Court had total debt principal as of June 30, 2005 of \$10,043,954 with \$405,687 due within the next year.

Report Comments:

- The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers
- The Fiscal Court Lacks Adequate Segregation Of Duties

Deposits:

The Fiscal Court's deposits were underpledged by bank securities or bonds.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Roger T. Daniel, Johnson County Judge/Executive
Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Johnson County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Johnson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Johnson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Johnson County, Kentucky, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Roger T. Daniel, Johnson County Judge/Executive

Members of the Johnson County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Johnson County, Kentucky's basic financial statements. The accompanying supplemental information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is also not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2005, on our consideration of Johnson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers
- The Fiscal Court Lacks Adequate Segregation Of Duties

Respectfully submitted,

Wells & Company, PSC

Wells & Company, PSC

Certified Public Accountants

Audit fieldwork completed –
December 28, 2005

JOHNSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2005

Fiscal Court Members:

Roger T. Daniel
Stephen Nicholas Frasier
Noel D. Crum
Luther VanHoose

County Judge/Executive
Commissioner
Commissioner
Commissioner

Other Elected Officials:

Paul L. Pack
Chester F. Griffith
Sally A. Holbrook
Vicki Rice
William D. Witten
Michael Stafford
J. R. Frisby

County Attorney
Jailer
County Clerk
Circuit Court Clerk
Sheriff
Property Valuation Administrator
Coroner

Appointed Personnel:

Adaline Stambaugh
Edadeane Bussey
Betty Picklesimer
Donald G. Patton
Valerie Meade
Lillian Wheeler

County Treasurer
Occupational Tax Collector
Finance Officer
Executive Assistant
Administrative Assistant
Programs and Projects Coordinator



Office Of The Judge/Executive
Johnson County Court House

338 2ND STREET
P. O. BOX 868
PAINTSVILLE, KENTUCKY 41240
Phone 606-789-2550
Fax 606-789-2555

R. T. DANIEL
COUNTY JUDGE/EXECUTIVE

Management's Discussion and Analysis
June 30, 2005

The financial management of Johnson County, Kentucky offers readers of Johnson County's financial statements this narrative overview and analysis of the financial activities of Johnson County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Johnson County had net assets of \$8,876,322 as of June 30, 2005. The Fiscal Court had unrestricted net assets of \$3,512,517 in its governmental activities as of June 30, 2005. Total debt principal as of June 30, 2005 was \$10,043,954 with \$405,687 due within one year.
- The government's total net assets increased by \$2,429,924 from the prior year. This increase is primarily due to the decrease in expenditures from the prior year.
- At the close of the current fiscal year, Johnson County's balance sheet reported a fund balance of \$6,389,730. Of this amount, \$6,389,730 is available for spending at the government's discretion (unreserved fund balance).
- Johnson County's total indebtedness at the close of fiscal year June 30, 2005 was \$10,043,954, of which \$9,638,267 is long-term debt (due after 1 year) and \$405,687 is short-term debt (to be paid within 1 year). Debt reductions were \$700,094 during the year.
- On February 24, 2004, Johnson County received Revenue Bonds in the amount of \$9,540,000 to build a Justice Center. The Justice Center Corporation expended an additional \$5,155,833 during this fiscal year for construction and related expenditures.
- In addition, Johnson County bought some new vehicles and road equipment at a cost of \$248,978 and did \$1,111,704 in road resurfacing and reconstruction without incurring additional debt for these items.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Johnson County's basic financial statements. Johnson County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of Johnson County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Johnson County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Johnson County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Johnson County's governmental activities include general governmental, protection to persons and property, general health and sanitation, roads, recreation, social services, debt service, and administration. The County has no business type activities.

The government-wide financial statements include not only Johnson County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Johnson County has one such entity, the Justice Center Corporation. It is known as a blended component unit.

Fund Financial Statements.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Johnson County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Johnson County are *governmental funds*.

Governmental Funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Johnson County maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Fund, Jail Fund, and Justice Center Corporation Fund, all of which are considered major funds by the County. The LGEA Fund, Mountain Homeplace Economic Development Project Fund, Special Insurance Fund, Industrial Authority #1 Fund, Industrial Authority #2 Fund, Industrial Authority #3 Fund, Industrial Authority #4 Fund, Road and Bridge FEMA #1 Fund, Road and Bridge FEMA #2 Fund, Road and Bridge FEMA #1523 Fund, Homeland Security Fund, West Van Lear Sewage Collection Fund, and Public Properties Courthouse Corporation Sinking Bond Fund are considered non-major funds and are represented in a combined form.

Johnson County adopts an annual appropriated budget for its major governmental funds except the Justice Center Corporation. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Notes to the Financial Statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis.

Net Assets.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, total assets exceeded liabilities by \$8,876,322 for fiscal year 2005 and \$6,446,398 for fiscal year 2004. Net assets increased primarily due to the capitalization of repairs and resurfacing to roads.

Net Assets. (Continued)

Table 1
Summary of Statement of Net Assets
as of June 30, 2005 and 2004

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Assets		
Current and other assets	\$ 6,555,090	\$11,036,520
Capital assets	<u>12,365,186</u>	<u>6,153,926</u>
Total Assets	18,920,276	17,190,446
Liabilities		
Current and other liabilities	405,687	89,603
Long-term liabilities	<u>9,638,267</u>	<u>10,654,445</u>
Total Liabilities	10,043,954	10,744,048
Net Assets		
Invested in capital assets, net of related debt	5,315,905	3,553,509
Restricted	47,900	46,532
Unrestricted	<u>3,512,517</u>	<u>2,846,357</u>
Total Net Assets	<u>\$ 8,876,322</u>	<u>\$ 6,446,398</u>

GASB 34 requires management to include certain comparisons when they are available. These include prior and current year comparisons of changes in ending net assets, asset and liability position, general revenues by major source program revenues, and program expenses by function, for governmental activities.

Statement of Activities.

The following table indicates changes in net assets for governmental activities:

Statement of Activities (Continued)

Table 2
Summary of Changes in Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004

	Governmental Activities 2005	Governmental Activities 2004
Revenues:		
Program revenues:		
Operation grants and contributions	\$2,571,164	\$2,679,788
General revenues:		
Real property tax	703,366	678,470
Motor vehicle taxes and licenses	236,044	214,316
Occupational taxes	810,100	819,688
Other taxes	184,310	197,260
Intergovernmental – revenues not restricted	928,864	563,751
Unrestricted investment earnings	167,653	92,179
Other revenues	<u>2,276,984</u>	<u>514,035</u>
Total revenues	7,878,485	5,759,487
Expenses:		
General government administration	1,565,855	987,102
Protection to persons and property	850,108	599,260
General health and sanitation	56,253	23,721
Social Services	234,266	230,468
Recreation and culture	31,822	49,409
Roads	296,663	347,896
Debt service	123,890	85,685
Administration	<u>2,289,704</u>	<u>2,183,305</u>
Total expenses	5,448,561	4,506,846
Change in net assets	<u>2,429,924</u>	<u>1,252,641</u>
Net assets-beginning	<u>6,446,398</u>	<u>5,193,757</u>
Ending net assets	<u><u>\$8,876,322</u></u>	<u><u>\$6,446,398</u></u>

Financial Analysis of the County's Funds.

As noted earlier, Johnson County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Johnson County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the ending fund balance of County governmental funds was \$6,389,730. Approximately 100% (\$6,389,730) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has four major governmental funds. These are 1) General Fund; 2) Road and Bridge Fund; 3) Jail Fund; 4) Justice Center Corporation. There are 13 non-major funds. They are the LGEA Fund, Mountain Homeplace Economic Development Project Fund, Special Insurance Fund, Industrial Authority #1 Fund, Industrial Authority #2 Fund, Industrial Authority #3 Fund, Industrial Authority #4 Fund, Road and Bridge FEMA #1 Fund, Road and Bridge FEMA #2 Fund, Road and Bridge FEMA #1523 Fund, Homeland Security Fund, West Van Lear Sewage Collection Fund, and Public Properties Courthouse Corporation Sinking Bond Fund.

1. The General Fund is the chief operating fund of Johnson County. At the end of the June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$1,492,788. The County received \$810,100 in Occupational tax revenues. This accounts for approximately 19% of the General Fund revenue. \$703,367 was received from real and personal property taxes and accounts for approximately 16% of the County's General Fund revenues. The County collected \$1,020,325 in excess fees from the Sheriff and Clerk. This accounts for approximately 24% of the General Fund revenues. Various other taxes and service fees make up the remaining 41% of revenues.
2. The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. The Road and Bridge Fund had \$740,703 in fund balance at June 30, 2005. The fund balance at the end of the previous year was \$599,500. The fiscal year 2005 expenditures for road projects were \$1,404,120.
3. The Justice Center Corporation is a fund used for the construction on the new Justice Center. It was funded by a Revenue Bond for \$9,540,000. The Justice Center Corporation had a fund balance at June 30, 2005 of \$2,841,985. Construction in progress for June 30, 2005 was \$5,155,833.
4. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had an unreserved fund balance at June 30, 2005 of \$2,648, a decrease of \$166 over the previous fiscal year end.
5. The Local Government Economic Assistance Fund had a fund balance of \$421,704, an increase of \$251,948 over the previous fiscal year end.

Financial Analysis of the County's Funds. (Continued)

6. The Mountain Homeplace Economic Development Project Fund had a fund balance of \$29,493, an increase of \$805 over the previous fiscal year end.
7. The Special Insurance Fund had a fund balance of \$51,838, an increase of \$350 over the previous fiscal year end.
8. The Industrial Authority #1 Fund is restricted to the recruitment of new companies and jobs to the County. The year end balance of this Fund was \$191,450, an increase of \$5,247 over the previous fiscal year end.
9. The Industrial Authority #2 Fund is restricted to the recruitment of new companies and jobs to the County. The year end balance of this Fund was \$10,849, an increase of \$296 over the previous fiscal year end.
10. The Industrial Authority #3 Fund is restricted to the recruitment of new companies and jobs to the County. The year end balance of this Fund was \$427,772, an increase of \$11,676 over the previous fiscal year end.
11. The Industrial Authority #4 Fund is restricted to the recruitment of new companies and jobs to the County. The year end balance of this Fund was \$42,579, a decrease of \$28,762 over the previous fiscal year end.
12. The Road and Bridge FEMA #1 Fund accounts for federal monies used for disaster repairs to County roads and bridges. The year end balance of this Fund was \$0, a decrease of \$246,604 over the previous fiscal year end.
13. The Road and Bridge FEMA #2 Fund accounts for federal monies used for disaster repairs to County roads and bridges. The year end balance of this Fund was \$0, a decrease of \$16,512 over the previous fiscal year end.
14. The Road and Bridge FEMA #1523 Fund accounts for federal monies used for disaster repairs to County roads and bridges. The year end balance of this Fund was \$88,020.
15. The Homeland Security Fund accounts for the operation of the County's emergency situations. It is supported primarily from federal money. The Fund had a fund balance of \$0 at the end of the June 30, 2005 fiscal year.
16. The West Van Lear Sewage Collection Fund had a fund balance of \$1 as of June 30, 2005. The prior year ending fund balance was \$1. Those funds were used to construct sewage lines in the community of West Van Lear.
17. The Public Properties Courthouse Corporation Sinking Bond Fund had an ending fund balance of \$47,900 at the end of the fiscal year. Its activities are restricted to debt reduction on the Courthouse Corporation Bond issue. Outstanding debt on the Courthouse Corporation is \$502,769 consisting of \$368,444 in principal and \$134,325 of interest. The debt will be retired in 2014.

General Fund Budgetary Highlights.

The County's original budget was amended during the fiscal year increasing the operating budget by \$3,132,150. Budget amendments were made to all areas due to FEMA disasters, grants, surplus cash carried forward and an increase in other unexpected revenues.

Actual operating revenues were \$395,158 more than amount originally budgeted by the Fiscal Court. This increase was primarily from excess fees.

Actual operating expenditures were \$113,754 less than amount originally budgeted by the Fiscal Court.

Capital Assets and Debt Administration.

Capital Assets. Johnson County's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$12,365,186 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions.

Table 3
Capital Assets

	<u>June 30, 2004</u>			<u>June 30, 2005</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Net Being Depreciated:				
Land and Land Improvements	\$1,320,000	\$ -	\$ -	\$ 1,320,000
Construction In Progress – Judicial Center	<u>1,482,279</u>	<u>5,155,833</u>	<u>-</u>	<u>6,638,112</u>
Total Capital Assets Net Being Depreciated	<u>2,802,279</u>	<u>5,155,833</u>	<u>-</u>	<u>7,958,112</u>
Capital Assets, Being Depreciated:				
Buildings	4,275,600	-	-	4,275,600
Other Equipment	50,000	-	-	50,000
Vehicles and Equipment	896,860	248,978	(34,500)	1,111,338
Infrastructure	<u>609,840</u>	<u>1,111,704</u>	<u>-</u>	<u>1,721,544</u>
Total Capital Assets Being Depreciated	<u>5,832,300</u>	<u>1,360,682</u>	<u>(34,500)</u>	<u>7,158,482</u>
Less Accumulated Depreciation For:				
Buildings	(2,133,271)	(52,571)	-	(2,185,842)
Other Equipment	(24,675)	(1,645)	-	(26,320)
Vehicles and Equipment	(304,043)	(160,488)	27,450	(437,081)
Infrastructure	<u>(18,664)</u>	<u>(83,501)</u>	<u>-</u>	<u>(102,165)</u>
Total Accumulated Depreciation	<u>(2,480,653)</u>	<u>(298,205)</u>	<u>27,450</u>	<u>(2,751,408)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,351,647</u>	<u>1,062,477</u>	<u>(7,050)</u>	<u>4,407,074</u>
Governmental Activities Capital Assets, Net	<u>\$6,153,926</u>	<u>\$6,218,310</u>	<u>\$ (7,050)</u>	<u>\$12,365,186</u>

Capital Assets and Debt Administration. (Continued)

Long-Term Debt. At the end of the 2005 fiscal year, Johnson County had total long-term debt outstanding of \$10,043,954. The amount of this debt due within the next year is \$405,687 and \$9,638,267 is due in subsequent years.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget:

- The 2006 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the State level, may have a negative impact on funding for County programs. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

Requests For Information

This financial report is designed to provide a general overview of Johnson County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Johnson County Treasurer, P. O. Box 868, Paintsville, Kentucky 41240.

JOHNSON COUNTY
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

June 30, 2005

JOHNSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

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June 30, 2005

	<u>PRIMARY GOVERNMENT</u>
	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Cash Equivalents	\$ 6,389,730
Bond Discount	165,360
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	6,638,112
Land	1,320,000
Buildings	2,089,758
Other Equipment	23,680
Vehicles and Equipment	674,257
Infrastructure Assets - Net of Depreciation	<u>1,619,379</u>
TOTAL ASSETS	<u>18,920,276</u>
LIABILITIES	
Current Liabilities:	
Revenue Bonds	355,000
Financing Obligations	<u>50,687</u>
TOTAL CURRENT LIABILITIES	<u>405,687</u>
Noncurrent Liabilities:	
Revenue Bonds	9,185,000
Financing Obligations	<u>453,267</u>
TOTAL NONCURRENT OBLIGATIONS	<u>9,638,267</u>
TOTAL LIABILITIES	<u>10,043,954</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,315,905
Restricted For:	
Debt Service	47,900
Unrestricted	<u>3,512,517</u>
TOTAL NET ASSETS	<u>\$ 8,876,322</u>

The accompanying notes are an integral part of the financial statements.

**JOHNSON COUNTY
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**

For the Year Ended June 30, 2005

JOHNSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

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For The Year Ended June 30, 2005

Functions/Programs Reporting Entity	Program Revenues Received			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
General Government	\$ 1,565,855	\$ -	\$ -	\$ -
Protection To Persons And Property	850,108	-	457,589	-
General Health And Sanitation	56,253	-	54,990	-
Social Services	234,266	-	-	-
Recreation And Culture	31,822	-	-	-
Roads	296,663	-	1,022,372	-
Debt Service	123,890	-	-	-
Administration	2,289,704	-	1,036,213	-
Total Governmental Activities	5,448,561	-	2,571,164	-
Total Primary Government	\$ 5,448,561	\$ -	\$ 2,571,164	\$ -

General Revenues:

Taxes:

Real Property Taxes
Motor Vehicle Taxes And Licenses
Occupational Taxes
Other Taxes

Intergovernmental Revenues

Not Restricted

Unrestricted Investment Earnings

Other Revenues

Total General Revenues

Change In Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

JOHNSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

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**Net (Expenses) Revenues
and Changes in Net Assets**
Primary Government

<u>Governmental Activities</u>	<u>Totals</u>
\$ (1,565,855)	\$ (1,565,855)
(392,519)	(392,519)
(1,263)	(1,263)
(234,266)	(234,266)
(31,822)	(31,822)
725,709	725,709
(123,890)	(123,890)
<u>(1,253,491)</u>	<u>(1,253,491)</u>
<u>(2,877,397)</u>	<u>(2,877,397)</u>
<u>(2,877,397)</u>	<u>(2,877,397)</u>
703,366	703,366
236,044	236,044
810,100	810,100
184,310	184,310
928,864	928,864
167,653	167,653
<u>2,276,984</u>	<u>2,276,984</u>
<u>5,307,321</u>	<u>5,307,321</u>
<u>2,429,924</u>	<u>2,429,924</u>
<u>6,446,398</u>	<u>6,446,398</u>
<u>\$ 8,876,322</u>	<u>\$ 8,876,322</u>

The accompanying notes are an integral part of the financial statements.

JOHNSON COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2005

JOHNSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

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June 30, 2005

	GENERAL FUND	ROAD AND BRIDGE FUND	JAIL FUND	JUSTICE CENTER CORPORATION	NON- MAJOR FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash And Cash Equivalents	\$ 1,492,788	\$ 740,703	\$ 2,648	\$ 2,841,985	\$ 1,311,606	\$ 6,389,730
Total Assets	<u>\$ 1,492,788</u>	<u>\$ 740,703</u>	<u>\$ 2,648</u>	<u>\$ 2,841,985</u>	<u>\$ 1,311,606</u>	<u>\$ 6,389,730</u>
FUND BALANCES						
Fund Balances:						
Unreserved:						
General Fund	\$ 1,492,788	\$ -	\$ -	\$ -	\$ -	\$ 1,492,788
Special Revenue Funds	-	740,703	2,648	-	1,263,706	2,007,057
Capital Projects Fund	-	-	-	2,841,985	-	2,841,985
Debt Service Fund	-	-	-	-	47,900	47,900
Total Fund Balances	<u>\$ 1,492,788</u>	<u>\$ 740,703</u>	<u>\$ 2,648</u>	<u>\$ 2,841,985</u>	<u>\$ 1,311,606</u>	<u>\$ 6,389,730</u>

Reconciliation To Statement Of Changes In Net Assets:

Total Fund Balances	\$ 6,389,730
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported In The Funds	15,116,594
Depreciation	(2,751,408)
Bond Discount	165,360
Long-term debt Is Not Due And Payable In The Current Period And, Therefore, Is Not	
Reported In The Funds	
Bonded Debt	(9,540,000)
Financing Obligations	(503,954)
Net Assets Of Governmental Activities	<u>\$ 8,876,322</u>

The accompanying notes are an integral part of the financial statements.

JOHNSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
For the Year Ended June 30, 2005

JOHNSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

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For The Year Ended June 30, 2005

	GENERAL FUND	ROAD AND BRIDGE FUND	JAIL FUND	JUSTICE CENTER CORPORATION	NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes	\$ 1,668,080	\$ -	\$ -	\$ -	\$ -	\$ 1,668,080
In Lieu Tax Payments	47,952	-	-	-	-	47,952
Excess Fees	1,020,325	-	-	-	-	1,020,325
Licenses And Permits	12,624	205,164	-	-	-	217,788
Intergovernmental	107,494	996,816	114,417	-	1,260,976	2,479,703
Miscellaneous	1,420,216	166,815	693,004	-	-	2,280,035
Interest	28,550	21,620	669	77,233	39,581	167,653
Total Revenues	4,305,241	1,390,415	808,090	77,233	1,300,557	7,881,536
EXPENDITURES						
General Government	1,511,639	-	-	-	-	1,511,639
Protection To Persons And Property	-	-	400,956	-	457,589	858,545
General Health And Sanitation	-	-	56,253	-	-	56,253
Social Services	158,380	-	-	-	75,886	234,266
Recreation And Culture	-	-	-	-	31,822	31,822
Roads	-	998,136	-	-	402,784	1,400,920
Construction In Progress	-	-	-	5,155,833	-	5,155,833
Debt Service	8,361	-	740,716	-	55,827	804,904
Administration	1,701,653	405,984	47,331	-	134,736	2,289,704
Total Expenditures	3,380,033	1,404,120	1,245,256	5,155,833	1,158,644	12,343,886
Excess (Deficiency) Of Revenues Over Expenditures Before Other Financing Sources (Uses)	925,208	(13,705)	(437,166)	(5,078,600)	141,913	(4,462,350)
Other Financing Sources (Uses)						
Transfers In From Other Funds	432,589	154,908	437,000	-	-	1,024,497
Transfers Out To Other Funds	(950,416)	-	-	-	(74,081)	(1,024,497)
Total Other Financing Sources (Uses)	(517,827)	154,908	437,000	-	(74,081)	-
Net Change In Fund Balances	407,381	141,203	(166)	(5,078,600)	67,832	(4,462,350)
Fund Balances - Beginning	1,085,407	599,500	2,814	7,920,585	1,243,774	10,852,080
Fund Balances - Ending	\$ 1,492,788	\$ 740,703	\$ 2,648	\$ 2,841,985	\$ 1,311,606	\$ 6,389,730

The accompanying notes are an integral part of the financial statements.

**JOHNSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**

For the Year Ended June 30, 2005

JOHNSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

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For The Year Ended June 30, 2005

Reconciliation To The Statement Of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ (4,462,350)
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense	
Capital Outlay	6,509,465
Depreciation Expense	(298,205)
Bond Discount	(19,080)
Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources	
Bond Payments	<u>700,094</u>
Change In Net Assets Of Governmental Activities	<u><u>\$ 2,429,924</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS

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June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Johnson County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the Fiscal Court is able to impose its will on these organizations. These Organizations' balances and transactions are reported as though they are part of the County's primary government using the blending method.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Johnson County Public Properties Courthouse Corporation

The Public Properties Courthouse Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the Fiscal Court.

Johnson County Justice Center Corporation

Johnson County Fiscal Court must approve issue of bonded debt for the Justice Center Corporation; therefore, the Justice Center Corporation is fiscally dependent. In addition, the Fiscal Court approves all payments for the construction of the Justice Center Corporation. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the Fiscal Court.

C. Johnson County Elected Officials Not Part Of Johnson County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Johnson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Johnson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund. This fund was considered non-major in the prior year.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Justice Center Corporation - The Justice Center Corporation accounts for the activities of the Justice Center Corporation, a blended component unit of the County. The Justice Center Corporation issued debt to build and construct facilities for the Justice Center. The Justice Center Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Mountain Homeplace Economic Development Project Fund, Special Insurance Fund, Industrial Authority #1 Fund, Industrial Authority #2 Fund, Industrial Authority #3 Fund, Industrial Authority #4 Fund, Road and Bridge FEMA #1 Fund, Road and Bridge FEMA #2 Fund, Road and Bridge FEMA #1523 Fund, Homeland Security Fund, West Van Lear Sewage Collection Fund, and Public Properties Courthouse Corporation Sinking Bond Fund.

Special Revenue Funds:

The Road and Bridge Fund, Local Government Economic Assistance Fund, Mountain Homeplace Economic Development Project Fund, Special Insurance Fund, Industrial Authority #1 Fund, Industrial Authority #2 Fund, Industrial Authority #3 Fund, Industrial Authority #4 Fund, Road and Bridge FEMA #1 Fund, Road and Bridge FEMA #2 Fund, Road and Bridge FEMA #1523 Fund, Homeland Security Fund, and West Van Lear Sewage Collection Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Courthouse Corporation Sinking Bond Fund, and Justice Center Corporation are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition. KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$25,000	10-60
Buildings and Building Improvements	\$50,000	10-75
Machinery and Equipment	\$5,000	3-25
Vehicles	\$5,000	2-40
Infrastructure	\$25,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported. Bond discounts are amortized over ten years.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Courthouse Corporation Sinking Bond Fund or the Justice Center Corporation because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually. Transfers are budgeted in the General Fund for the Public Properties Courthouse Corporation Bond Sinking Fund to comply with the above requirements. The Department for Local Government does not require these funds to be budgeted.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of Johnson County Fiscal Court: The Industrial Development Board.

K. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Big Sandy Regional Jail meets the criteria noted above and is an organization jointly governed by several Kentucky counties.

Note 2. Deposits

Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) is required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a formal deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, the County had deposits exposed to custodial credit risk as follows:

Uncollateralized and uninsured	\$665,509
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Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$1,320,000	\$ -	\$ -	\$ 1,320,000
Construction In Progress – Judicial Center	<u>1,482,279</u>	<u>5,155,833</u>	<u>-</u>	<u>6,638,112</u>
Total Capital Assets Not Being Depreciated	<u>2,802,279</u>	<u>5,155,833</u>	<u>-</u>	<u>7,958,112</u>

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

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Note 3. Capital Assets (Continued)

Capital Assets, Being Depreciated:

Buildings	4,275,600	-	-	4,275,600
Other Equipment	50,000	-	-	50,000
Vehicles and Equipment	896,860	248,978	(34,500)	1,111,338
Infrastructure	<u>609,840</u>	<u>1,111,704</u>	<u>-</u>	<u>1,721,544</u>

Total Capital Assets Being Depreciated	5,832,300	1,360,682	(34,500)	7,158,482
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Less Accumulated Depreciation For:

Buildings	(2,133,271)	(52,571)	-	(2,185,842)
Other Equipment	(24,675)	(1,645)	-	(26,320)
Vehicles and Equipment	(304,043)	(160,488)	27,450	(437,081)
Infrastructure	<u>(18,664)</u>	<u>(83,501)</u>	<u>-</u>	<u>(102,165)</u>

Total Accumulated Depreciation	<u>(2,480,653)</u>	<u>(298,205)</u>	<u>27,450</u>	<u>(2,751,408)</u>
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Total Capital Assets, Being Depreciated, Net	<u>3,351,647</u>	<u>1,062,477</u>	<u>(7,050)</u>	<u>4,407,074</u>
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Governmental Activities Capital Assets, Net	<u>\$6,153,926</u>	<u>\$6,218,310</u>	<u>\$ (7,050)</u>	<u>\$12,365,186</u>
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Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 54,216
Protection to Persons and Property	17,163
Roads, Including Depreciation of General Infrastructure Assets	<u>226,826</u>

Total Depreciation Expense – Governmental Activities	<u>\$298,205</u>
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Note 4. Long-Term Debt

A. Solid Waste Revolving Loan Fund

On April 10, 2000, Johnson County entered into a loan agreement with the Kentucky Infrastructure Authority to close the Van Lear Landfill. The Authority loaned the County \$124,583 at an interest rate of 2.3% over 10 years. As of June 30, 2005, the principal amount outstanding is \$73,510. Principal payments for the remaining years are:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2006	\$ 1,618	\$12,687
June 30, 2007	1,325	12,980
June 30, 2008	1,024	13,281
June 30, 2009	718	13,588
December 1, 2010	<u>484</u>	<u>20,974</u>
Total	<u>\$ 5,169</u>	<u>\$73,510</u>

Note 4. Long-Term Debt (Continued)

B. Public Properties Courthouse Corporation Liabilities

The County is liable for a \$685,000 note by the Public Properties Courthouse Corporation with a current interest rate of 6.750% for 28 years. This note was originally made with Farmer's Home Administration on January 1, 1987, and subsequently sold to GMAC Commercial Mortgage. As of June 30, 2005, the principal amount outstanding is \$368,444. Principal payments for the remaining years are:

<u>Due Date</u>	<u>Scheduled Principal</u>
June 30, 2006	\$ 31,000
June 30, 2007	33,000
June 30, 2008	36,000
June 30, 2009	38,000
June 30, 2010	41,000
July 1, 2010 to January 1, 2014	<u>189,444</u>
Total	<u>\$368,444</u>

C. First Mortgage Revenue Bonds, Series 2004

The Justice Center Corporation (Corporation), an agency and instrumentality of the Fiscal Court issued obligations dated February 1, 2004, payable in 20 annual principal installments beginning August 1, 2005 with semi-annual interest payments at rates ranging from 2.00% to 4.50% beginning August 1, 2004. These bonds are currently being used for the construction of the new facility.

The Corporation entered into a contract lease and option with the Administrative Office of the Courts (AOC). The lease provides the AOC lease the project site and project at a rental equal to the full amount of the principal and interest requirements on the bonds for each year in which the lease is renewed. On July 1 of each even numbered year, the lease may be renewed by AOC for another biennial period of two years. Should the AOC renew the lease until the bonds mature, the Corporation will convey the project site and the project to the Fiscal Court. As of June 30, 2005, bonds outstanding were \$9,540,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 355,000	\$ 328,030
2007	365,000	320,830
2008	370,000	313,480
2009	380,000	305,790
2010	395,000	297,180
2011-2015	2,170,000	1,315,533
2016-2020	2,605,000	915,965
2021-2025	<u>2,900,000</u>	<u>344,127</u>
Totals	<u>\$9,540,000</u>	<u>\$4,140,935</u>

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

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Note 4. Long-Term Debt (Continued)

The County has entered into the following agreement with the Kentucky Association of Counties Leasing Trust Program:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Waste Control	December 13, 1993	January 20, 2013	Variable	\$62,000

Principal payments for the remaining years are:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2006	\$ 3,299	\$ 7,000
June 30, 2007	2,908	7,000
June 30, 2008	2,517	7,000
June 30, 2009	2,127	7,000
June 30, 2010	1,712	8,000
July 1, 2010 to January 20, 2013	<u>2,355</u>	<u>26,000</u>
Total	<u>\$14,918</u>	<u>\$62,000</u>

Note 5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations (Note 4)	\$ 1,204,048	\$ -	\$700,094	\$ 503,954	\$ 50,687
Revenue Bonds (Note 4)	<u>9,540,000</u>	<u>-</u>	<u>-</u>	<u>9,540,000</u>	<u>355,000</u>
Governmental Activities Long-Term Liabilities	<u>\$10,744,048</u>	<u>\$ -</u>	<u>\$700,094</u>	<u>\$10,043,954</u>	<u>\$405,687</u>

Note 6. Interest On Long-Term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$123,890 in interest on bonds and notes.

Note 7. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit plan which covers all eligible full-time employees and provides for retirement, disability, and death benefits. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The County's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Ky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2005, Johnson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

NOTE 9. Estimated Infrastructure Historical Cost

Infrastructure assets placed in service prior to 7/1/03 (date of GASB 34 implementation) is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Infrastructure assets placed in service after this date are reported at actual historical cost.

Note 10. Litigation

1. Former Sheriff Gay Cyrus Should Eliminate The \$7,811 Deficit In Her 1992 Tax Account

There was a deficit of \$17,559 in the former Sheriff's 1992 Tax Account. This deficit resulted from undeposited 1992 tax receipts discovered in the 1992 tax audit. The deficit of \$17,559 has been reduced by payments of \$9,748 made March 20, 2000, leaving a balance of \$7,811 owed to the following taxing districts.

Johnson County School District	\$7,017
Paintsville Independent School District	<u>794</u>
Total	<u>\$7,811</u>

As of December 28, 2005, no additional payments have been made toward this deficit.

Note 10. Litigation (Continued)

KRS 64.820(1) states the Fiscal Court shall collect any amount due the County from the County official as determined by the audit if the amount can be collected without suit. KRS 64.820(2) states that in the event the Fiscal Court cannot collect the amount due the County from a County official without suit, the Fiscal Court shall then direct the County Attorney to institute suit for the collection of the amount reported in the audit. Pursuant to KRS 64.820(1), the Fiscal Court has directed the County Attorney to institute suit for collection of the amounts due.

2. Former Sheriff Don McFaddin Should Eliminate An Accumulated Deficit of \$11,592 In His Tax Accounts

Former Sheriff Don McFaddin has a deficit of \$11,592 in his tax account. These deficits resulted from undeposited tax receipts discovered during prior audits. The amounts owed the different taxing districts are as follows:

<u>TAXING DISTRICT</u>	<u>1993</u>	<u>1998</u>	<u>1997</u>	<u>TOTAL</u>
Johnson County School	\$4,125	\$3,177	\$1,256	\$ 8,558
Library			89	89
Health		2,818	92	2,910
Extension			29	29
Soil Conservation			6	6
Total	<u>\$4,125</u>	<u>\$5,995</u>	<u>\$1,472</u>	<u>\$11,592</u>

As of December 28, 2005, no additional payments have been made toward this deficit.

KRS 64.820(1) states the Fiscal Court shall collect any amount due the County from the County official as determined by the audit if the amount can be collected without suit. KRS 64.820(2) states that in the event the Fiscal Court cannot collect the amount due the County from a County official without suit, the Fiscal Court shall then direct the County Attorney to institute suit for the collection of the amount reported in the audit. Pursuant to KRS 64.820(1), the Fiscal Court has directed the County Attorney to institute suit for collection of these amounts.

JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
REQUIRED SUPPLEMENTAL INFORMATION – MODIFIED CASH BASIS

For The Year Ended June 30, 2005

JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis

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For The Year Ended June 30, 2005

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,791,185	\$ 1,791,185	\$ 1,668,080	\$ (123,105)
In Lieu Tax Payments	39,000	39,000	47,952	8,952
Excess Fees	1,308,982	1,308,982	1,020,325	(288,657)
Licenses And Permits	1,350	1,350	12,624	11,274
Intergovernmental Revenue	360,875	360,875	107,494	(253,381)
Miscellaneous	368,691	1,250,057	1,420,216	170,159
Interest	40,000	40,000	28,550	(11,450)
Total Revenues	<u>3,910,083</u>	<u>4,791,449</u>	<u>4,305,241</u>	<u>(486,208)</u>
EXPENDITURES				
General Government	1,463,662	2,345,028	1,511,639	833,389
Social Services	306,100	306,100	158,380	147,720
Debt Service	15,161	15,161	8,361	6,800
Administration	1,708,864	1,708,864	1,701,653	7,211
Total Expenditures	<u>3,493,787</u>	<u>4,375,153</u>	<u>3,380,033</u>	<u>995,120</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>416,296</u>	<u>416,296</u>	<u>925,208</u>	<u>508,912</u>
OTHER FINANCING SOURCES (USES)				
Transfers In From Other Funds	-	-	432,589	432,589
Transfers Out To Other Funds	(416,296)	(416,296)	(950,416)	(534,120)
Total Other Financing Sources and Uses	<u>(416,296)</u>	<u>(416,296)</u>	<u>(517,827)</u>	<u>(101,531)</u>
Net Changes In Fund Balances	-	-	407,381	407,381
Fund Balances - Beginning	-	-	1,085,407	1,085,407
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,492,788</u>	<u>\$ 1,492,788</u>

JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis

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For The Year Ended June 30, 2005 (Continued)

ROAD AND BRIDGE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses	\$ 193,000	\$ 193,000	\$ 205,164	\$ 12,164
Intergovernmental Revenue	948,901	1,278,667	996,816	(281,851)
Miscellaneous	-	166,815	166,815	-
Interest	20,000	20,000	21,620	1,620
Total Revenues	<u>1,161,901</u>	<u>1,658,482</u>	<u>1,390,415</u>	<u>(268,067)</u>
EXPENDITURES				
Roads	695,577	1,192,158	998,136	194,022
Administration	466,324	466,324	405,984	60,340
Total Expenditures	<u>1,161,901</u>	<u>1,658,482</u>	<u>1,404,120</u>	<u>254,362</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(13,705)</u>	<u>(13,705)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In From Other Funds	-	-	154,908	154,908
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>154,908</u>	<u>154,908</u>
Net Changes In Fund Balances	-	-	141,203	141,203
Fund Balances - Beginning	-	-	599,500	599,500
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 740,703</u>	<u>\$ 740,703</u>

JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis

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For The Year Ended June 30, 2005 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 146,120	\$ 146,120	\$ 114,417	\$ (31,703)
Miscellaneous	66,935	689,881	693,004	3,123
Interest	2,000	2,000	669	(1,331)
Total Revenues	<u>215,055</u>	<u>838,001</u>	<u>808,090</u>	<u>(29,911)</u>
EXPENDITURES				
Protection to Persons and Property	345,200	345,200	400,956	(55,756)
General Health and Sanitation	73,534	73,534	56,253	17,281
Debt Service	98,054	721,000	740,716	(19,716)
Administration	51,563	51,563	47,331	4,232
Total Expenditures	<u>568,351</u>	<u>1,191,297</u>	<u>1,245,256</u>	<u>(53,959)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(353,296)</u>	<u>(353,296)</u>	<u>(437,166)</u>	<u>(83,870)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In From Other Funds	353,296	353,296	437,000	83,704
Total Other Financing Sources and Uses	<u>353,296</u>	<u>353,296</u>	<u>437,000</u>	<u>83,704</u>
Net Changes In Fund Balances	-	-	(166)	(166)
Fund Balances - Beginning	-	-	2,814	2,814
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,648</u>	<u>\$ 2,648</u>

JOHNSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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For The Year Ended June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**JOHNSON COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplemental Information**

June 30, 2005

JOHNSON COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplemental Information

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June 30, 2005

SPECIAL REVENUE FUNDS						
	LGEA FUND	MOUNTAIN HOMEPLACE ECONOMIC DEVELOPMENT PROJECT FUND	SPECIAL INSURANCE FUND	INDUSTRIAL AUTHORITY #1 FUND	INDUSTRIAL AUTHORITY #2 FUND	INDUSTRIAL AUTHORITY #3 FUND
ASSETS						
Cash	\$421,704	\$ 29,493	\$ 51,838	\$ 191,450	\$ 10,849	\$ 427,772
Total Assets	<u>\$421,704</u>	<u>\$ 29,493</u>	<u>\$ 51,838</u>	<u>\$ 191,450</u>	<u>\$ 10,849</u>	<u>\$ 427,772</u>
FUND BALANCES						
Fund Balances:						
Unreserved:						
Special Revenue Funds	\$421,704	\$ 29,493	\$ 51,838	\$ 191,450	\$ 10,849	\$ 427,772
Debt Service Fund	-	-	-	-	-	-
Total Fund Balances	<u>\$421,704</u>	<u>\$ 29,493</u>	<u>\$ 51,838</u>	<u>\$ 191,450</u>	<u>\$ 10,849</u>	<u>\$ 427,772</u>

JOHNSON COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplemental Information

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June 30, 2005

	SPECIAL REVENUE FUNDS					
	INDUSTRIAL AUTHORITY #4 FUND	ROAD AND BRIDGE FEMA #1 FUND	ROAD AND BRIDGE FEMA #2 FUND	ROAD AND BRIDGE FEMA #1523 FUND	HOMELAND SECURITY FUND	WEST VAN LEAR SEWAGE COLLECTION FUND
ASSETS						
Cash	\$ 42,579	\$ -	\$ -	\$ 88,020	\$ -	\$ 1
Total Assets	<u>\$ 42,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,020</u>	<u>\$ -</u>	<u>\$ 1</u>
FUND BALANCES						
Fund Balances:						
Unreserved:						
Special Revenue Funds	\$ 42,579	\$ -	\$ -	\$ 88,020	\$ -	\$ 1
Debt Service Fund	-	-	-	-	-	-
Total Fund Balances	<u>\$ 42,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,020</u>	<u>\$ -</u>	<u>\$ 1</u>

JOHNSON COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplemental Information
 June 30, 2005
 (Continued)

DEBT SERVICE FUND			
PUBLIC PROPERTIES COURTHOUSE CORPORATION SINKING BOND FUND		TOTAL GOVERNMENTAL FUNDS	
\$	47,900	\$	1,311,606
\$	47,900	\$	1,311,606
\$	-	\$	1,263,706
	47,900		47,900
\$	47,900	\$	1,311,606

**JOHNSON COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplemental Information**

For The Year Ended June 30, 2005

JOHNSON COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplemental Information

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For The Year Ended June 30, 2005

	SPECIAL REVENUE FUNDS				
	LGEA FUND	MOUNTAIN HOMEPLACE ECONOMIC DEVELOPMENT PROJECT FUND	SPECIAL INSURANCE FUND	INDUSTRIAL AUTHORITY #1 FUND	INDUSTRIAL AUTHORITY #2 FUND
REVENUES					
Intergovernmental	\$472,730	\$ -	\$ -	\$ -	\$ -
Interest	9,111	805	350	5,247	296
Total Revenues	<u>481,841</u>	<u>805</u>	<u>350</u>	<u>5,247</u>	<u>296</u>
EXPENDITURES					
Protection to Persons And Property	-	-	-	-	-
Social Services	45,886	-	-	-	-
Recreation And Culture	29,572	-	-	-	-
Roads	19,699	-	-	-	-
Debt Service	-	-	-	-	-
Administration	134,736	-	-	-	-
Total Expenditures	<u>229,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>251,948</u>	<u>805</u>	<u>350</u>	<u>5,247</u>	<u>296</u>
OTHER FINANCING SOURCES (USES)					
Transfers In From Other Funds	-	-	-	-	-
Transfers Out To Other Funds	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change In Fund Balances	251,948	805	350	5,247	296
Fund Balances - Beginning	169,756	28,688	51,488	186,203	10,553
Fund Balances - Ending	<u>\$421,704</u>	<u>\$ 29,493</u>	<u>\$ 51,838</u>	<u>\$ 191,450</u>	<u>\$ 10,849</u>

JOHNSON COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplemental Information
For The Year Ended June 30, 2005
(Continued)

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	SPECIAL REVENUE FUNDS				
	INDUSTRIAL AUTHORITY #3 FUND	INDUSTRIAL AUTHORITY #4 FUND	ROAD AND BRIDGE FEMA #1 FUND	ROAD AND BRIDGE FEMA #2 FUND	ROAD AND BRIDGE FEMA #1523 FUND
REVENUES					
Intergovernmental	\$ -	\$ -	\$ 33,329	\$ -	\$ 320,078
Interest	11,676	1,238	5,344	78	4,068
Total Revenues	<u>11,676</u>	<u>1,238</u>	<u>38,673</u>	<u>78</u>	<u>324,146</u>
EXPENDITURES					
Protection to Persons And Property	-	-	-	-	-
Social Services	-	30,000	-	-	-
Recreation And Culture	-	-	-	-	-
Roads	-	-	130,912	16,047	236,126
Debt Service	-	-	-	-	-
Administration	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>30,000</u>	<u>130,912</u>	<u>16,047</u>	<u>236,126</u>
Excess (Deficiency) Of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>11,676</u>	<u>(28,762)</u>	<u>(92,239)</u>	<u>(15,969)</u>	<u>88,020</u>
OTHER FINANCING SOURCES (USES)					
Transfers In From Other Funds	-	-	-	-	-
Transfers Out To Other Funds	-	-	(154,365)	(543)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(154,365)</u>	<u>(543)</u>	<u>-</u>
Net Change In Fund Balances	11,676	(28,762)	(246,604)	(16,512)	88,020
Fund Balances - Beginning	416,096	71,341	246,604	16,512	-
Fund Balances - Ending	<u>\$ 427,772</u>	<u>\$ 42,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,020</u>

JOHNSON COUNTY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplemental Information
 For The Year Ended June 30, 2005
 (Continued)

SPECIAL REVENUE FUNDS		DEBT SERVICE FUND	
HOMELAND SECURITY FUND	WEST VAN LEAR SEWAGE COLLECTION FUND	PUBLIC PROPERTIES COURTHOUSE CORPORATION SINKING BOND FUND	TOTAL GOVERNMENTAL FUNDS
\$ 432,589	\$ 2,250	\$ -	\$ 1,260,976
-	-	1,368	39,581
432,589	2,250	1,368	1,300,557
457,589	-	-	457,589
-	-	-	75,886
-	2,250	-	31,822
-	-	-	402,784
-	-	55,827	55,827
-	-	-	134,736
457,589	2,250	55,827	1,158,644
(25,000)	-	(54,459)	141,913
25,000	-	55,827	80,827
-	-	-	(154,908)
25,000	-	55,827	(74,081)
-	-	1,368	67,832
-	1	46,532	1,243,774
\$ -	\$ 1	\$ 47,900	\$ 1,311,606

JOHNSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplemental Information
For The Year Ended June 30, 2005

**JOHNSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplemental Information**

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For The Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Johnson County, Kentucky.
2. Two reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. One condition is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Johnson County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Johnson County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Johnson County reported in Part C of this schedule.
7. The programs tested as major programs were: Abandoned Mine Land Reclamation Programs - Greasy Creek/Offutt Project, State Domestic Preparedness Equipment Support Program - Homeland Security, and Edward Byrne State and Local Law Enforcement Assistance Discretionary Grants Program - Unite.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Johnson County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION/MATERIAL WEAKNESS

2005-1. The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers

During our testing, several receipt items had to be reclassified due to account misclassifications. We recommend the Treasurer properly classify and post transactions in the quarterly report .

County Judge/Executive Roger T. Daniel's Response:

The County Treasurer does a fine job with our books. When some revenue items are received, they are unidentified and hard to tell which revenue account to post in. We will request that a better description be given to the County from the State on monies received.

2005-2. The Fiscal Court Lacks Adequate Segregation Of Duties

The Fiscal Court lacks a proper segregation of duties. To have better internal controls, it is the best practice to keep the receipts of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals. We recommend that the matching of purchase orders and check-writing duties be delegated to a qualified office employee other than the County Treasurer. This will help segregate duties of the County Treasurer.

**JOHNSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplemental Information**

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**For The Year Ended June 30, 2005
(Continued)**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

County Judge/Executive Roger T. Daniel's Response:

The Treasurer's duties have been diluted and delegated to other office employees. The necessary steps have been put in place to strengthen internal control in all areas.

NONCOMPLIANCES

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers
This Comment Has Not Been Corrected And Has Been Repeated In The Current Report.
- Lacks Adequate Segregation Of Duties
This Comment Has Not Been Corrected And Has Been Repeated In The Current Report.

**JOHNSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Other Supplementary Information

JOHNSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplemental Information

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For The Year Ended June 30, 2005

Federal Grantor
Program Title
Grant Name (CFDA #)

PASS-THROUGH
GRANTOR'S NUMBER **EXPENDITURES**

Cash Programs:

U. S. Department of Commerce

Direct Program:

Congressionally Identified Awards and Projects
 NOAA - Pride Grant
 (CFDA #11.469)

CF01-16 \$ 54,990

U. S. Department of Housing and Urban Development

Passed-Through State Department for Local Government:

Community Development Block Grants -
 West Van Lear Sewage Collection System Project
 (CFDA #14.228)

00-006 \$ 2,250

U. S. Department of the Interior

Passed-Through State Department of Natural Resources:

Abandoned Mine Land Reclamation Programs -
 Greasy Creek/Offutt Project
 (CFDA #15.252)

GR107210 \$ 720,334

U. S. Department of Justice

Passed-Through State Department of Military Affairs:

Edward Byrne Memorial State and Local Law
 Enforcement Assistance Discretionary Grants Program
 Discretionary Drug and Criminal Justice
 Assistance Program - UNITE
 (CFDA# 16.580)

N/A \$ 57,459

JOHNSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplemental Information

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For The Year Ended June 30, 2005
(Continued)

Federal Grantor
Program Title
Grant Name (CFDA #)

PASS-THROUGH
GRANTOR'S NUMBER EXPENDITURES

Cash Programs: (Continued)

U. S. DEPARTMENT OF HOMELAND SECURITY

Passed-Through State Department of Military Affairs:

State Domestic Preparedness Equipment

Support Program

(CFDA #97.004)

N/A

\$ 432,589

Disaster and Emergency Assistance Grants -

Public Assistance Grants

Disaster Repairs

(CFDA #97.036)

DR .1407

433,375

Emergency Management Performance Grants

DES Director Salary

(CFDA #97.042)

EMPG3

15,889

\$ 881,853

Total Cash Expenditures Of Federal Awards

\$ 1,716,886

JOHNSON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplemental Information
For The Year Ended June 30, 2005

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- Note 1. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Johnson County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

The Honorable Roger T. Daniel, Johnson County Judge/Executive
Members of the Johnson County Fiscal Court

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Johnson County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 28, 2005. Johnson County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Johnson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Johnson County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs.

- 2005-1 The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers
- 2005-2 The Fiscal Court Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition listed as 2005-2 is a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Johnson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Wells & Company, PSC

Wells & Company, PSC
Paintsville, Kentucky

Audit fieldwork completed –
December 28, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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The Honorable Roger T. Daniel, Johnson County Judge/Executive
Members of the Johnson County Fiscal Court

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Johnson County, Kentucky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Johnson County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Johnson County's management. Our responsibility is to express an opinion on Johnson County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Johnson County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Johnson County's compliance with those requirements.

In our opinion, Johnson County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Johnson County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Johnson County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

Wells & Company, PSC

Wells & Company, PSC
Paintsville, Kentucky

Audit fieldwork completed
December 28, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

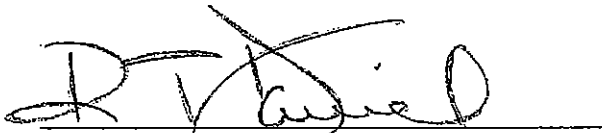
JOHNSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

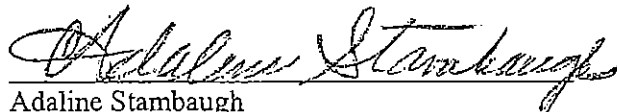
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
JOHNSON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2005

The Johnson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in dark ink, appearing to read "R. T. Daniel", written over a horizontal line.

Roger T. Daniel
County Judge/Executive

A handwritten signature in dark ink, appearing to read "Adaline Stambaugh", written over a horizontal line.

Adaline Stambaugh
County Treasurer